INSTRUCTIONS TO CANDIDATES:

• This paper consists of six questions
• Answer any five questions.
• Write your answers in the answer booklet provided
• All questions carry equal marks
Answer any five questions

1. a) Explain five challenges that may be experienced by a new entrepreneur who is intending to start a business in Kenya. (10mks)

   b) The following transactions relates to Konate Traders for the month of December 2010.

   Dec 1st
   Started a business with sh. 200,000 in the Bank account.
   2nd
   Bought furniture for sh. 50,000 and paid by cheque
   3rd
   Sold goods on credit to Tila shs. 20,000; Katu 10,000
   4th
   Bought goods on credit from Kahama sh 30,000; Kanga shs. 40,000
   5th
   Returned faulty goods to Kahama sh 5,000
   6th
   Paid Kahama on account by cheque less 10% cash discount.
   7th
   Received faulty goods from Katu shs. 2000
   8th
   Received payment due from Tila and Katu by cheque less 5% cash discount.
   9th
   Cash sales shs. 100,000
   10th
   Paid for wages shs. 20,000 by cash and electricity shs. 10,000 by cheque.
   11th
   Deposited all the cash in hand into the bank account.

   Required:
   Prepare a three column cash book duly balanced (10mks)

2. a) Explain four reasons why a public limited company may prefer to raise finance through issue of ordinary shares instead of debentures. (8mks)

   b) The following trial balance was extracted from the books of Nyaituya on 31st Dec 2005.

<table>
<thead>
<tr>
<th>Dr(shs)</th>
<th>Cr(shs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>720,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>340,000</td>
</tr>
<tr>
<td>Returns</td>
<td>20,000</td>
</tr>
<tr>
<td>Rent</td>
<td>16,000</td>
</tr>
<tr>
<td>Advertising</td>
<td>24,000</td>
</tr>
<tr>
<td>Commission</td>
<td>9,000</td>
</tr>
<tr>
<td>Debtors/creditors</td>
<td>54,000</td>
</tr>
<tr>
<td>Stock 1/1/2005</td>
<td>60,000</td>
</tr>
<tr>
<td>Insurance</td>
<td>30,000</td>
</tr>
<tr>
<td>Drawings</td>
<td>40,000</td>
</tr>
</tbody>
</table>

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Furniture & Fittings 100,000  
Cash in hand 15,000  
Premises 400,000  
Capital 288,000  

\[ 1,099,000 \quad 1,099,000 \]

Additional information:

shs

(i) Stock as at 31\textsuperscript{st} Dec 2005 52,000
(ii) Rent accrued 6,000
(iii) Insurance paid in advance 4,000
(iv) Commission due 5,000
(v) Salaries owing 21,000

Required:
Prepare a trading profit and loss account for the year ended 31\textsuperscript{st} Dec 2005 and a balance sheet as at that date. (12mks)

3 a) Explain five ways in which commercial bank facilitate payment on behalf of their customers. (10mks)

b) Explain five methods that can be used by a country to solve the problem of deficit balance of payment. (10mks)

4 a) Explain four reasons why the government has to organize seminars for business people. (8mks)

b) Explain six benefits that could be enjoyed by a person who decided to take out an endowment policy. (12mks)

5 a) Outline four differences between mono-polistic competition and monopoly market structures. (8mks)

b) The transactions below relate to Emori provision General store for the month of April 2006.

April 2\textsuperscript{nd}: Bought goods on credit from Mwangi distributors for sale sh. 150,000 at 5% trade discount.

April 5\textsuperscript{th}: Bought an electronic typewriter on credit 25,000 from modern electronics on credit.
April 10th: Purchased goods on credit for sale sh.90,000 from city distributors
April 16th: Sold goods on credit to Magara for shs. 70,000
April 17th: Sold an old typewriter on credit shs 8,000 to Motanya.
April 18th: Sold goods for 80,000 on credit to Mogere.
April 19th: Purchased goods on credit for resale sh.5000 from Momanyi traders.
April 20th: Sold goods on credit to Magara sh. 20,000

Required:
Prepare the relevant books of original entry ready for posting to appropriate ledger accounts as at 20th April 2006 (12mks)

6. a) Outline five reasons why development planning is very necessary in a country. (10mks)

b) Explain why the government may decide to control the exploitation of its natural resources. (10mks)